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Literature Review – The role of innovations in Customer Experience Management

Bachelor's thesis
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ABSTRACT

My literature review topic is the role of innovations in Customer Experience Management. It aims to give a reader a comprehensive understanding of the concepts of customer experience and customer experience management (CEM). This thesis also aims to form an understanding of the important role that innovations play in customer experience and how these innovations are essential for gaining and sustaining competitive advantage. In the paper I mainly focus on service and product innovations since they are distinctly valuable for customers and customer experience management. The review will also cover digital customer experience innovations that are highly current and actually one of the most important and disruptive innovations of 2010s.

The first part of the thesis reviews the literature and research about customer experience management and defines the concept as a whole. It focuses on the prospects of customer experience management and point out to executives, why customer experience management (CEM) is worth the bother. In the second part of the paper the concept of innovation is described and especially literature about digital customer experience innovations and digital environment is reviewed. The third part combines these two concepts and forms a totality of them. It discovers the significance and importance of customer experience innovations in order for companies to gain and sustain competitive advantage.

In the paper I discover that even though the benefits of customer experience management are widely recognized, companies still struggle to use it in practice and some even ignore it completely. It has been proven that most of the companies that have customer experience maturity levels above average have better financial reports than their competitors. This supports the argument that companies can no longer differentiate themselves from competitors by solely on physical elements, such as product features or price. The vital differences are found in the brand, in the perception and feel of a company, all of which are central elements in customer experience. This has led to customer experience and customer experience innovations especially becoming the key competitive factors in more and more industries. In the competitive and global environment the need and demand for innovations is now greater than ever. Customer collaboration in creating successful customer experience innovations is vital and supported by thesis's marketing theory.

Keywords Innovation, Customer Experience Management, Customer Journey

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1. Introduction

Choosing brand or a product over another is somewhat easy for today's consumers. Consumers have more choices and more channels to pursue them in today's highly competitive consumption environment than ever before (Meyer and Schwager 2007). Also considering that the market is getting more global it is dangerous for companies to assume that the experience they are offering is unique and that they should not look into the data to keep in track with the actual experience their brand is providing (Meyer and Schwager 2007).

In Bain & Company's survey (2005) only 8% of the customers of the 362 companies surveyed reported that their experience with the company was "superior". Yet 80% of the companies considered their experience indeed superior. With these curved notions, the chances of improvement are small, though the need is urgent (Meyer and Schwager 2007). Even though a strong customer experience has been shown to give significant results, many companies still struggle to identify the plan of action to achieve them (Borowski 2015; Meyer and Schwager 2007).

Although the importance of customer experience is somewhat recognized, relatively little academic research has been done on innovations of customer experience. Innovations have been described as the development of new products, services and processes but also as an exploitation of new markets (Szirmai et al. 2011) According to Prahalad and Ramaswamy (2003) innovations need to start shifting the focus away from products and services and more onto customer experience environment, where the potential to success is better. Innovations are significant part of customer experience management and they are essential to gain and maintain competitive advantage (Schmitt 2003). The need and demand to innovate is now

greater than ever. In competitive environment value creation can only come from innovation (Prahalad and Ramaswamy 2003).

This paper is a literature review that aims to give a reader comprehensive understanding of the concepts of customer experience and customer experience management (CEM). This thesis also aims to form an understanding of the important role that innovations play in customer experience and how these innovations are essential for gaining and sustaining competitive advantage. I will mainly focus on service and product innovations since they are distinctly valuable for customers and customer experience management. The review will also cover digital customer experience innovations that are highly current and actually one of the most important and disruptive innovations of 2010s.

Therefore, the research question I will try to answer is:

- **What is the role of innovations in Customer Experience Management?**

In order to understand these two different concepts and the link between them, my secondary research questions are:

- **How are Customer Experience and Customer Experience Management defined?**
- **What are Customer Experience Innovations and how do they operate in digital environment?**

The first part of the thesis reviews the literature and research about customer experience management and defines the concept as a whole. It focuses on the prospects of customer experience management and point out to executives, why customer experience management (CEM) is worth the bother. In the second part of the paper the concept of innovation is described and especially literature about digital customer experience innovations and digital

environment is reviewed. The third part combines these two concepts and forms a totality of them. It discovers the significance and importance of customer experience innovations in order for companies to gain and sustain competitive advantage. Finally, the results of this paper are discussed, limitations estimated, managerial implications presented and thoughts about future research suggested.

2. Defining Customer Experience

Customer experience has been defined as the quality of all the consumer's encounters with the firm's brand and products (Borowski 2015). It includes every aspect of a company's offering, from the advertising, packaging and the actual product, to the quality of customer care, service features and reliability (Meyer and Schwager 2007). While a strong customer experience has been shown to produce significant results, many companies still struggle to identify the specific plan of action to achieve those results (Borowski 2015).

The concept of customer experience has long been wrongly linked only to entertainment type of organizations as economists have earlier linked experiences with only services (Pine and Gilmore 1998). Today experiences have spread beyond services like theme parks and theaters. Products and services are becoming more and more interchangeable due to lack of functional differentiation which has led to the competition based on experiences, not products (Pine & Gilmore 1998). Experiences have become the fourth economic offering (in addition to commodities, goods and services) that we can recognize due to consumers growing demand for memorable experiences (Pine and Gilmore 1998).

One of the first writers of customer experience were Pine and Gilmore as they addressed the growing importance of services which has led to companies seeking competitive advantage

through experiences (Pine and Gilmore 1998). Meyer and Schwager (2007) describe customer experience as a multidimensional ensemble of customer's comprehensive responses to the company's offerings during the entire customer journey. Customer experience includes all direct and indirect contacts between the customer and the company. Direct contacts signify the contacts initiated by the customers (e.g. purchase, use and service), as the indirect contacts stand for the contacts initiated by the company or other consumers (e.g. advertising and word-of-mouth). Thus, customer experience means the total empiric experience that includes the search, purchase, consumption and also the after-sale phases of the experience (Verhoef et al. 2009).

2.1 Total Customer experience

A seamless and successful total customer experience (TCE) is created when company manages to embed its fundamental value proposition in every feature of its offering (Meyer and Schwager 2007). The secret to a good experience is not the level of complexity of features, but the value proposition being fulfilled every step of the customer's journey (Meyer and Schwager 2007). Furthermore, in B2B context a seamless and successful experience is not usually exciting, but simply trouble-free and reassuring to those in charge. The same statement is made from another perspective by Rawson, Duncan and Jones (2013) as they stated that more touchpoints creates more complexity. Even though, every separate touchpoint tries to focus on its own purpose, management and the customer service often lose sight of the bigger picture how the customer faces all the touchpoint together (Rawson et al. 2013).

Research conducted by Rawson, Duncan and Jones (2013) showed that companies able to manage the whole customer experience gain massive rewards. They had improved customer satisfaction, reduced churn, increased revenue and enhanced employee satisfaction. As men-

tioned in the previous chapter, total customer experience covers all aspects of company's offering and is not only linked to services. Still few of the employees responsible of those offering aspects consider how their role is part of shaping the customer experience. They all may also have different idea of the customer experience the company offers its customers as a whole (Meyer and Schwager 2007).

Another challenge that seems to emerge from earlier literature (Berry et al. 2002; Mascarenhas et al. 2006; Meyer and Schwager 2007; Rawson et al. 2013) is how organizations can manage the total customer experience and better it by every step of the customer's journey through the product, service and brand. There are still companies that don't even understand why they should focus or worry about the total customer experience. Or, on the other hand, there are companies that are confident that they already have created the desired seamless experience (Meyer and Schwager 2007), even though the Bain & Company's survey that was presented in the introduction clearly indicates that most of the customers disagree with this. Delivering a total customer experience is increasingly vital considering the pressures of commoditization, globalization and market saturation in developed countries (Mascarenhas et al. 2006). Delivering a total customer experience is the most linear way of sustaining lasting customer loyalty.

2.2 Emergence of experiences

Customer experience has not been perceived as a separate construct in the marketing literature history (Verhoef et al. 2009). Researches and literature have focused more on customer satisfaction, service quality and customer relationship management (Berry et al. 2007; Parasuraman et al. 1988) but this doesn't mean that customer experience has gone unnoticed. Already 35 years ago Holbrook and Hirschmann (1982) noticed that consumption has empiri-

cal aspects and that the future research should start focusing more on consumption experience.

Gilmore and Pine, being pioneers on experience economy, introduced the exhibit of progression of economic value. This concept is visualized in the following figure (Figure 1). The progression of economic value shows relevant offering differentiations to customer needs to customer pricing. It expresses that the more an offering is tailored to meet the needs of customers, the higher is the value creation (Pine and Gilmore 1998). Therefore the goods are customized to become services, the services are customized to become experiences.

According to the framework, experiences are the fourth distinct economic offering. To gain a competitive advantage in today's market, companies are forced to upgrade their offerings to the next stage of economic value (Pine and Gilmore 1998). This means that the competitive advantage is created on the basis of experiences, not the basis of the actual products. There actually has been a fifth distinct offering "transformation" added to the progression chart (Pine and Gilmore 2000), but it's still quite unexamined concept and actually close to the experience offering and therefore I don't observe it in this thesis.

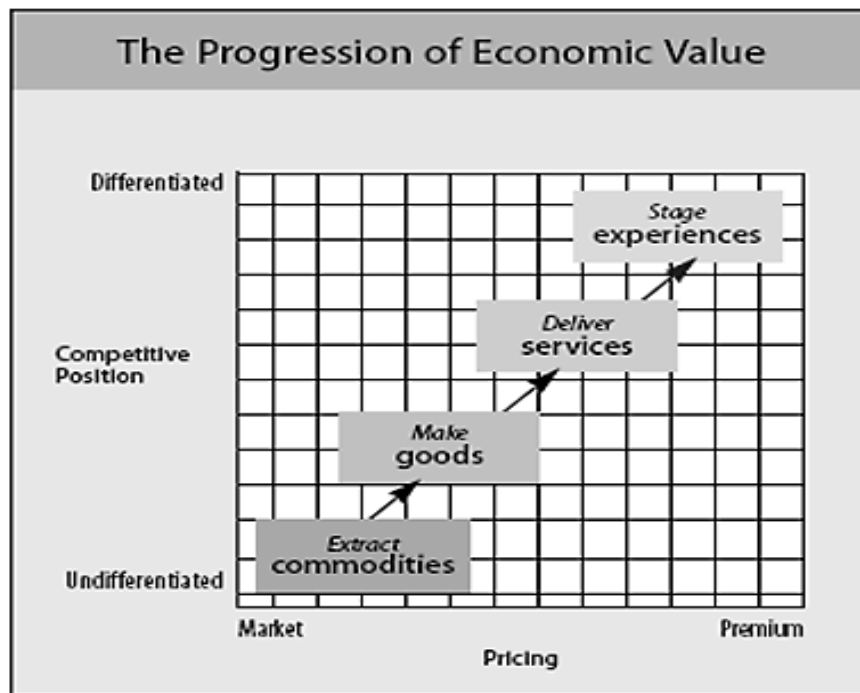


Figure 1: The progression of economic value (Pine and Gilmore 1998)

As services and products have become more and more exchangeable due to lack of functional differentiation, consumers' demand for memorable and trouble-free experiences continues to grow (Pine and Gilmore 1998; Schmitt 2003). Research conducted by Shaw and Ivens in 2005 showed that 85% of senior business leaders agree that differentiating solely on physical elements, such as price or delivery, is no longer sustainable business strategy. New differentiator needed to be found and it is the customer experience. The differences are found in the brand, in the perception and feel of a company, all of which are central elements in customer experience. (Shaw and Ivens 2005). This has resulted into companies need to stage their customer experience in order to create competitive advantage (Schmitt 2003).

2.3 Customer Experience Management

There isn't one agreed or encompassing definition about customer experience management but according to Schmitt (2003) the concept represents the process or/and methodology used to extensively manage a customer's cross-channel encounters with a company, brand or with a company's offering. Customer experience management (also known as CEM or CXM) covers the design and implementation of customer experience along the customer journey to create value for both customers and company (Schmitt 2010). Customer experience management captures what the customer thinks about the company during all the encounters ("touchpoints") and gives management a tool to discover the gaps in the customer journey, where expectations don't meet the actual experience (Meyer and Schwager 2007). Therefore CEM can be seen as a process that companies use to examine all the interactions with a customer during their relationship. Still needs to be taken in consideration that there isn't a one exhaustive definition about customer experience management provided in the literature.

Many companies still lack a strategic customer experience management and invest in customer relationship management (CRM) instead (Meyer and Schwager 2007). When comparing CRM and CEM, customer experience management focuses more on the current events with the customer, rather than the experience history of the customer. (Verhoef et al. 2009). This means that customer experience management looks into what the customer thinks about the company, not what the company knows about the customer (Meyer and Schwager 2007). Even though CRM can be perceived as a helpful tool (Kumar 2010), it is still more lagging than CEM and getting the information after the touchpoint and not focusing on the actual encounter (Meyer and Schwager 2007).

Like mention earlier, managers do admit the significance of customer experience management but still neglect the usage of it or its results (Schmitt 2010). According to Meyer and

Schwager (2007) there are three main forces that customer experience management faces and that preserve the gap between managers and CEM. Firstly, the limitation that often occurs with customer experience management is its questionable profitability. Companies' budgets are limited and usually a lot of money is already used in customer relationship management. Everyone can agree that better customer satisfaction adds value to offering, but does it pay off? Justifiably, managers want to know how customer experience management is different and what the value of its data is. As executives find it difficult to calculate the ROI of customer experience, they miss the importance of experiences to actual business outcomes. Therefore there still is a need to justify customer experience management against current managerial problems and potential value generation for company (Meyer and Schwager 2007).

Secondly, managers often lack attunement to customers' needs. Naturally executives who are familiar with customer-facing functions are more likely to act with reference to customer experience compared to those who have not (Meyer and Schwager 2007). On the other hand, leaders who have risen through finance, engineering, or manufacturing industries often consider managing customer experience as the responsibility of sales, marketing or customer service and won't put any more thought into it.

Thirdly, a challenge that customer experience management faces is that companies might be afraid of what the data may reveal (Meyer and Schwager 2007). It is simple to say that one's business is customer-driven when there are no data to prove otherwise. What is that the customers might want and what if the company can't deliver that? The same corporate leaders who look the other way when company and customer assessment diverge, would not tolerate a gap between forecasted and actual revenues. (Meyer and Schwager 2007). These type of

challenges has slowed down companies' processes to get customer experience management a vital part of their marketing and management strategies.

2.4 Customer Journey

In the June 2009 issue of McKinsey Quarterly, David Court and three coauthors introduced the concept of "Consumer decision journey". Their research revealed that today's consumers take iterative journey of four stages when narrowing their purchase choices. These four customer journey stages are consideration, evaluation, buy, and enjoy, advocate, bond. Consideration stage means the initial consideration set of brands based on consumer's prior experience and recommendations. In evaluation stage consumer actively seek information and evaluate potential options. This stage is followed by the point of purchase and after that begins the open-ended relationship between the consumer and the brand. Consumers can remain engaged and share their experiences with their peers (Edelman 2010).

The concept of "customer journey" refers to all encounters, also known as "touchpoints" that the consumer has with the company and the brand. The actual customer experience and the customer's journey are closely intertwined (Meyer and Schwager 2007). Customer experience includes all direct and indirect contacts between the customer and the company. Direct contacts signify the contacts initiated by the customers (e.g. purchase, use and service), as the indirect contacts stand for the contacts initiated by the company or other consumers (e.g. advertising and word-of-mouth) (Meyer and Schwager 2007). All these contacts create the customer journey as a whole and all the touchpoints together determine the consumer's perception of the brand. Therefore the touchpoints don't only include the directly controlled ones (e.g. advertising, purchase and service) by the company, but also those that are not controlled but earned (e.g. reputation, word-of-mouth and reviews) (Verhoef et al. 2009).

Depending on who has the control over the encounter, touchpoints can be categorized by their ownership. Brand-owned touchpoints are under firm's control. These touchpoints include brand-owned media (advertising) and brand-controlled elements of the marketing mix (product, packing and service) (Verhoef et al. 2016). Other classifications are partner-owned touchpoints and consumer-owned touchpoints. Partner-owned refers to aspects that are jointly managed and controlled by the firm and its partners, such as retailers and marketing agencies etc. Consumer-owned touchpoints on the other hand means the consumer actions that the firm nor its partners has no control over. Consumer-owned touchpoints include reviews, social media and word-of-mouth (Verhoef et al. 2016).

Beside the encounters between the brand and the customer, customers' expectations for the brand influent how they experience the customer journey (Meyer and Schwager 2007). People's expectations are created by their previous experiences with a company's offerings. Each new experience of customers' is instinctively compared with their previous experiences and judged accordingly (Meyer and Schwager 2007). Customer's personal situation, market conditions and the competition can also shape expectations that influent the customer journey.

2.4.1 Implementing CEM into customer journey

When implementing customer experience management into the customer journey, what needs to noticed is that optimizing single touchpoints is not sufficient enough: The full journey is what matters and therefore the focus has to change from touchpoint to journey orientation (Rawson et al. 2013). Even though touchpoints are highly critical interaction moments between customers and the company, companies still have emphasized the role of touchpoints too much: Concise concentration on maximizing satisfaction at the touchpoints can create a

misshapen image, implying that customers are more content with the company than they actually are. It also draws the focus away from the bigger, and more important picture: the customer's end-to-end journey (Rawson et al. 2013).

Organizations need to manage the cumulative experience across touchpoints and stop focusing on single transactions (Rawson et al. 2013). Implementing the changes across the company is truly important but also very challenging: Analyzing journeys and redesigning service processes get a company only so far (Rawson et al. 2013). The biggest challenges that companies face when implementing customer experience management into customer journey are the lack of customer journey map and the cross-functional disconnections within companies (Rawson et al. 2013).

A more specific discussion on how to insert transformational and unifying initiatives to the journey is beyond this thesis, but there are two important changes that are worth to mention: Firstly, modifying the company and its processes to deliver excellent journeys and secondly adjusting metrics and incentives to support the entire journey, not just single touchpoints, are critical (Rawson et al. 2013).

2.5 Collecting customer experience data

Organizations can observe multiple patterns of interaction with customers to gain a better understanding of the customer experience they are providing (Meyer and Schwager 2007). Through customer experience management companies can capture what customers think about them. Data about touchpoints and customer experiences can be collected via qualitative or quantitative research: Qualitative research methods include ethnography, interviews and focus groups, where quantitative research methods include retrospective surveys, experience

tracking and click-stream data (Macdonald et. al. 2012). Customer experience measurements often focus on retrospective surveys and interviews. Problems with these methods are that customers usually can't analyze their customer journey comprehensively. Retrospective studies often struggle with customers' memory decay, erroneous beliefs and they lack of journey perspective (Macdonald et al. 2012).

Identifying the entire journey of the customers can be done by accompanying the customer over the entire decision making process and beyond (Rawson et al. 2013). Potential solution founded for this is the new research tool "Real-time Experience Tracker" (RET) application that experimenters can download to their mobile phones. Every time experimenter customers encounter with the company or the brand, they can report through this application's quick micro survey (Macdonald et al. 2012). The real-time experience tracker have two solutions to data collection problems that surveys often have: Market researchers can't easily follow customers around 24 hours a day to get relevant data but those customers' mobile phones can.

Secondly, mobile phone surveys don't influence people's responses and perceptions of experiences like human observers often do (Macdonald et al. 2012). Through real-time experience tracking researchers can often cover the entire customer journey from the identification of a need to the actual purchase. RET data is also being used to identify what motivates customers to buy a specific brand and how the various touchpoints separately and combined influence the customers' decision making progress (Macdonald et al. 2012).

Consumers today interact with brands and companies in fundamentally new ways, often through media channels that are beyond company's control (Edleman 2010). Investments often lag behind the consumer behavior, largely because companies want proof of a new me-

dium's effectiveness before they are willing to make major changes in their data measurements or marketing mix (Fulgoni and Lipsman 2014). Digitalization has effected customer experience data measurements and the focus has been shifting from offline to online (Borowski 2015). Social media is a bigger impactor in consumer's decision making than ever before (Edelman 2010) and it should not be ignored when it comes to data collecting.

Social media tracking, or monitoring, means systematic observation and analysis of social media networks and social communities that is often used in customer experience data collecting (Fensel et al. 2012). Social media tracking offers access to customers' opinions, complaints and questions, in real time. It is more precise, faster and more economical than traditional expert panel analysis and the speed at which one can investigate a specific topic exceeds greatly the speed of traditional survey approach (Fensel et al. 2012).

Advertising tracking is another method that can be used to promote marketing efforts, streamline workflow and improve user experience (Rice and Bennett 1998). An advertising tracker is commonly used for online advertising to measure return on investment (ROI) for a marketing method. This data is commonly used to improve user experience, streamline workflow and to promote marketing efforts (Fensel et al. 2012).

3. Defining innovations

Innovation as a concept is not new and there are actually over 40 definitions of innovation in scientific literature. In dictionary term “innovation” is defined as a new idea, method or device. Innovation is often also viewed as the application of better solutions that meet the new requirements of unarticulated or already existing market needs (Maryvill 1992). Simpler concept of innovation refers that innovation is a creation of a viable new offering and that it represent new ideas being put into practice (Fagerberg 2005; Keeley et al. 2013).

According to Crossan and Apaydin (2010): *“Innovation is a production or adoption, assimilation, and exploitation of a value-added novelty in economic and social spheres; renewal and enlargement of products, services, and markets; development of new methods of production; and establishment of new management systems. It is both a process and an outcome”* (p. 1155). This definition has actually been considered to be the most complete and it is referred a lot in the literature. This type of broader approach to innovation is also seen by Szirmai, Naudé and Goedhuys (2011): They see innovation as the development of new products, services, new sources of supply and new processes but also as an exploitation of new markets. Overall it is important to notice that innovation does not only mean first introduction by an innovator but also the spread of the innovation to the other actors in the economy (Szirmai et al. 2011).

Sometimes the concept of innovation is mixed with invention. Invention and innovation are often closely linked but an important distinction needs to be made between the two (Crossan and Apaydin 2010; Keeley et al. 2013; Fagerberg 2004; Szirmai, Naudé and Goedhuys 2011). Innovation may involve invention, but it requires many other thing as well. Invention is the

first occurrence of an idea for a new product or process, whereas innovation is the first commercialization of the idea and the creation of a viable new offering (Keeley et al. 2013). For example, innovation can appear in a new product design, a new production process or in a new marketing approach (Porter 1990).

3.1 Gaining competitive advantage through innovations

Progressions in technology, material design and digitalization fields are seen as increasing opportunities in a wide variety of industries. As the competitive environment rapidly transforms consumption behavior, the potential for innovation is greater than ever (Prahalad and Ramaswamy 2003). Considering the highly competitive business environment, managers are under a great deal of pressure to gain competitive advantage. Competition is increased and globalized and profit margins are shrinking (Prahalad and Ramaswamy 2003). Traditional correctives such as cost reduction, reengineering and outsourcing are arguably vital, but they cannot solve the problems of margin pressure: Competitive advantage and value creation through profitable growth can come only from innovation (Prahalad and Ramaswamy 2003). Chesbrough (2006) stated bluntly in his book that most innovations in the market fail and companies that don't innovate die. In today's world, where the only constant is change, the task of managing innovation is vital for companies of every size and every industry (Chesbrough 2006). When innovation is not only vital for growing companies but also to sustain current businesses, it is, on the other hand, also very difficult process to manage. According to a study conducted by Keeley et al. (2013) in industries, such as services and manufacturing, a full 95% of all innovation efforts fail. The fact is that successful innovation depend on many factors that cannot be stated in a single paper or even in a book. Still, chances of breakthroughs are greater if innovation is looked in a more systematic way and its importance to gaining competitive advantage is recognized (Keeley et al. 2013).

All successful companies have their own particular strategy and their way of doing things but the character and trajectory of the companies is fundamentally the same: competition has clearly shifted more to the creation and adaption of knowledge as the competitive advantage is achieved through acts of innovations (Porter 1990). Successful companies around the world have approached innovation in its broadest sense, including both new technology and the new ways of processes and creating value.

Most common way to create competitive advantage through innovation is by perceiving an entirely new market opportunity or by serving a market segment that others have ignored (Porter 1990). When competitors are slow to respond, such innovations yield competitive advantage. Good example for this is how in industries like home electronics and auto Japanese companies gained their competitive advantage by focusing on more compact and lower capacity models that others had disdained as less important and less profitable. These new models answered to the demand of the ignored market segments and they became an instant success.

3.2 Innovations in digital time

Over the last half-century no other innovation than digital electronics has so drastically changed the way we live, interact and operate (Kressel 2007). Digital electronics have shifted from being technical specialization to this revolutionary force that not only generate new industries but transforms economics into global competitors. Digital electronics have given us an instant access to the whole universe of information and unprecedented ability to com-

municate instantly with people across the world (Kressel 2007). Digital electronics and Internet offer companies also a great platform to create new innovations (Kressel 2007).

Consumer behavior has rapidly shifted as more and more people are using digital devices and intensively interacting through those platforms. We as consumers steadily expect more from our computers, applications and smartphones (Keeley et al. 2013). Also as consumers spend more time on electronic devices (such as mobiles) and the importance and the functionality of devices grow, the opportunities for making money and profit from mobile platforms will continue to improve (Chappuis et al. 2011).

A study conducted by Chappuis, Gaffey, and Parvizi (2010) to over 100 000 respondents highlighted the growth of advanced multi digital segments in the consumer market. For instance according to the study, smartphone users are already more willing to pay for digital content and services than traditional online users are. Three out of every four iPhone users are now also paying for one or more apps each month. As more products are being distributed over mobile channels, greater competition will raise the standard for better design, user experience, and for new mobile payment methods (Chappuis et al. 2011).

Right now learning to anticipate and analyze disruptions, customers' needs as well as dissatisfactions and game-changing opportunities and problems is the biggest weapon against competitors. Naturally after that acting on them accordingly is how to get ahead of the competition. In this digital era, it's clear to see how transformational and exponential technology has been driving the society-shaping innovations. (Burrus and Mann 2011). Much of the success of digital time companies like Uber, Airbnb, and Bitcoin can be attributed to benefiting on the accelerated change. These type of innovations have left traditional businesses wondering

why they had such an enormous lack of foresight of the transformational change (Burrus and Mann 2011). Similar digital disruptions have been seen in other significant platforms as well, for example in gaming, e-publishing and music. The digital revolution, still in its earliest days, will continue to change the way we interact, buy, work and entertain ourselves (Chapuis et al. 2011).

3.3 Developing innovations

No matter how innovative business ideas companies have, they often don't grow the way investors expected. Often there is a huge difference between company's business plan and with the market's response to the innovation (Selden and MacMillan 2006). This gap reflects the fact that companies put a lot of money into their isolated R&D labs and not enough time to understand what the customers want, and after that using that information to drive innovation (Selden and MacMillan 2006). Also according to Sheth (2001) R&D organization should always interface with the customer as developing new technologies and innovation. Customer satisfaction encourages successful innovations. The customer input in the early stages of development has been recognized as one of the major reasons for the success of an innovation: Open communication and information exchange with customers increase the chances of creating a successful product innovation (Sheth 2001).

Focus on practices of new innovations has shifted away from products and services and more onto customer experience environments (Prahalad and Ramaswamy 2003). Studies conducted in the field of innovation propose involving customers by providing them with tools to create their own innovations (Von Hippel and Katz 2002; Prahalad and Ramaswamy 2004; Harden and Heyman 2009). Marketing theory has recognized the increased significance of customer collaboration in a successful customer experience creation process (Vargo and Lusch 2004).

Through customer collaboration organizations can learn better to understand and meet customer requirements, and most importantly actually improve their offering and performance (Prahalad and Ramaswamy 2004).

Developing a customer experience innovation demands an investment of time and patience, more than huge monetary investment (Selden and MacMillan 2006). Learning to create customer centric innovation is not something that happens overnight. If company is looking for a quick fix and its competitors are willing to put more work in, company is likely to fail. Customer experience innovation demands for sustained and focused effort as well as willingness to break through existing mindsets. (Selden and MacMillan 2006).

Urban and Hauser (2004) examined new ways to identify customer needs and through prospects of “customer-listening” they found better opportunities for innovation. Most of the studies that have been conducted in the innovation field imply that information about customers’ needs is gained through surveys, focus groups and personal interviews (Blazevic and Lievens 2008). Undeniably these practices are very beneficial, but the increased connectivity and possibilities of information technology open new opportunities for gaining knowledge. Information technology and interaction channels, such as social media and email, help companies to engage in ongoing dialogue with customers and to achieve mutual understanding with them (Blazevic and Lievens 2008).

4. Innovations in Customer Experience Management

Industries have come closer to each other and society has become growingly networked considering the active and important role of consumers. This why our basic conception of value has also come into question. Executives have discovered that neither value nor innovation can any longer be successfully and sustainably generated through a company-centric, product-and-service-focused management (Prahalad and Ramaswamy 2003).

A new perspective needs to be adopted. Perspective that allows customers to participate in construction of their own consumption experiences through personalized interaction. Thereby customers are able to co-create unique value for themselves. Still that said, there is yet not a single company that can be held as an exemplar of it (Prahalad and Ramaswamy 2003), so best practices cannot be illustrated. Therefore the next practices of innovation have to shift the focus away from products and services and onto experience environments in order to co-create unique value for individual customers (Prahalad and Ramaswamy 2003). This is where customer experience innovations come to the picture.

Customer experiences and especially customer experience innovations have become the key competitive factors in more and more industries (Kraft 2012). It is not even about launching the newest technologies if you don't plan to great a customer experience around them. For instance, was Apple the first company to introduce touch screens on mobile phones? No. Touchscreens existed in the mobile industry a decade before Apple introduced its first iPhone to the mobile market. Apple still managed to provide an excellent experience with this old technology: Being the first or the most innovative is no longer enough. The winner is often the company that just simply makes the new thing better than anyone else (Kraft 2012). In

other words, customers will more often than not choose products with the greatest customer experience.

Innovations have always been a vital part of customer experience management and its ideology (Schmitt 2003). Experience innovations create new ways to satisfy customers by taking a broader view on how customers actually interact with the products, not by focusing on specific product features. Transportation company Uber did not invent the wheel again but it simply changed the way consumers order and pay for rides and with that, improved the experience and created value for the customers.

4.1 Customer experience innovations

Pine and Gilmore (1998) predicted that experience design would become a business art like product development and process design were in the 1990's. Considering the growing amount of literature about customer experience and how customer experience innovations, like Netflix, Spotify and Uber, have gain market share compared to traditional products and services, can be stated that Pine and Gilmore were on the right tracks. Customer experience has truly become the competitive battleground of companies' (Pine and Gilmore 1998).

When it comes to customer experience management, customer experience innovations are essential (Schmitt 2003). Pine and Gilmore (1998) created the five principles on how to design exceptionally great experiences. The principles include following phases: concisely theming the experience, harmonizing "takeaways" that fulfill the experience, eliminating the negative characters, including memorabilia as the physical reminder of the experience and engaging all five senses making the experience memorable for the customers.

Even though these principles have been widely used and recognized as the basis on designing memorable experiences, the laws of supply and demand are still valid (Pine and Gilmore 1998). Companies that fail to create engaging and innovative experiences through their offerings are often bound to see the pressure of demand. Experience driven innovation is never a product nor an operation focused; it is truly a customer orientated and - based process, where customer's perspective is greatly implemented (Schmitt 2003). This has led to companies required to constantly analyze current and upcoming challenges and trends of consumption and implementing findings in the innovations. Customer experience innovation directly effects on how relevant the company is being perceived by its customers (Schmitt 2003). According to various literature sources, such as Schmitt (2003), Pine and Gilmore (1998) and Edelman and Singer (2015), it can be stated that customer experience innovations are essential to obtain and maintain a competitive advantage.

4.2 From customer experience innovations to competitive advantage

Customer centricity is not just rhetoric, it is a requirement for sustainable and profitable growth (Peppers and Rogers 2016). Companies, such as Best Buy and Seven Eleven that unify customers into R&D process of experience innovation accrue three linked strategic benefits (Selden and MacMillan 2006). Firstly, they gain knowledge that effectively helps them to block external threats. The more customer orientated company is, the longer it takes rivals to figure out its strategy and more likely the most customer centric company will win (Selden and MacMillan 2006).

Secondly, employees that work with the customers become increasingly engaged through their crucial role in customer centric innovation. This will lead to increased turnovers, employee loyalty and satisfied customers. Thirdly, the process of truly learning about customers'

needs and then addressing them, leads to the kind of innovation that is prosper and offers companies significant competitive advantage in the market (Selden and MacMillan 2006).

According to Selden and MacMillan (2006) there are three phases through which competitive advantage can be gained and successful customer experience innovations created. The first phase is to verify and develop the company's core values. Successful experience innovations require that core customer segments are identified and offering value developed to exceed the expectations of customers. The offering value represents the entire customer experience. It is vital for the company to sharpen the adjustments between customers' desires and the company's offerings and through that generate additional profits. Companies also need to build capabilities, such as the organizational infrastructure to not only communicate but also to deliver value propositions to the targeted segments.

In the second phase companies need to magnify the business beyond the core segment in two ways: extend capabilities and segments. Product capabilities need to be extended so that they address different and changing customers' needs and wants. The third phase can start after a company has extended its business, for example by searching opportunities to stretch its capabilities and segments. To fulfill the changing needs of the customer segments a company needs to identify new capabilities that could be developed, as well as delivery mechanisms and innovative offerings (Selden and MacMillan 2006). This happens most surely if customer collaboration is benefited (Vargo and Lusch 2004).

All of these phases are essential part of gaining competitive advantage, but during these processes companies have to also pay attention to disruption threats from competitors. Learning to anticipate and distinct changes in customers' needs or noticing growing dissatisfactions is

the key weapon against competitors (Burrus and Mann 2011). Changing expectations of customers can imply for that there is a need of new value propositions and experiences. The important task in innovation development and management is to know more about the company's current customers than any other and to make sure that the company is strategically and operationally ready to forestall and respond to competitors' moves (Selden and Macmillan 2006).

For example, when Netflix launched its mail-driven movie rental business, it eliminated customers' late-return fees from the beginning. Competing company Blockbuster had to respond by eliminating its own late fees as well in order to keep their offering still relevant for customers. Knowing beforehand that customers were unhappy and impatient with the late fees, Blockbuster should have eliminated them well before Netflix made its move (Selden and MacMillan 2006). Keeping track on not only what customers want, but also what they dislike is a way to get ahead of the competition.

4.3 Customer experience management in digital innovations

According to Borowski (2015) customer experience management would benefit leaders if they focused on specific part of customer experience: the digital side. Digital customer experience includes only those experiences through digital environment, like computer, tablet or mobile interface (Borowski 2015). Comparing products online, using brands applications or seeing celebrities use products on social media are all examples of digital customer experiences.

When implementing customer experience management into digital innovations managers must notice that offline and online consumers are very different (Borowski 2015). For example, offline consumers don't usually mind waiting for a service few minutes but online con-

sumers are far less patient: A study found that ten second load for page to open can make 50% of consumers to give up and leave the page. Consumers expect and want their online services working without problems, so for consumers, there really isn't any satisfactory excuse for poor digital customer experience (Borowski 2015). Of course still needs to be admitted that digital side is still only part of the coherent customer experience. But what can be learned from companies and their customers is that it is the one most deserving of immediate attention and investment (Borowski 2015).

The "old way of doing business" has become unsustainable as the internet has upended how consumers engage with companies and their offerings (Edelman 2010). Digital innovations have revolutionized our lifestyles and taken over traditional business (Burrus and Mann 2011; Edelman 2010; Kressel 2007). Still, one thing has still remain the same during digitalization of industries: Even if the product or service is digitized, customers still want a clear brand promise and offerings they value (Edelman 2010).

The online streaming service Netflix is an excellent example of digitized innovation which has used customer experience management through its all touchpoints and offered consumers value, considering their 100 million subscribers worldwide (Netflix 2017). According to a statement given by Netflix's Vice President of Product Innovation, Todd Yellin (2014), Netflix focuses on managing their customers' experience from the moment they sign up to the whole time they stay subscribers. Through collected big data Netflix gets to know its users and make their customer experience more customized and efficient, and therefore more valuable (Grenci and Watts 2007; Netflix 2017). Converting enabling technologies into opportunities for creating customer value can be seen as a key challenge in ecommerce and e-

services (Wheeler 2002), but also as an ideal prospect since those digital experiences can be efficiently mass customized for customers (Wells and Gobeli 2003).

5. Conclusion and discussion

5.1 Managerial implications

Customer experience maturity has proven to correlate with financial results. 77% of companies that had customer experience maturity level above average reported that their financial results in 2014 were better than their competitors (Peppers and Rogers 2016). As services and products have become more and more exchangeable due to lack of functional differentiation, consumers' demand for memorable and trouble-free experiences continues to grow (Meyer and Schwager 2007; Pine and Gilmore 1998; Schmitt 2003). This has led to customer experience and customer experience innovations especially becoming the key competitive factors in more and more industries (Kraft 2012).

Key finding made during this review was that successful companies don't innovate or create seamless customer experiences in isolation but in an interactive environment with the customers. Marketing theory has recognized the increasing importance of customer collaboration in creating good customer experiences as well as good customer experience innovations. (Vargo and Lusch 2004). Customer-orientation should not only show in the innovations themselves but also in the development process: Researches suggest involving customers by providing them with tools to create their own innovations (Von Hippel and Katz 2002; Harden and Heyman 2009). This also takes care of the need to continuously test the innovation in the light of the customer's perceptions and expectations (Vlaskovits 2011). Innovation should always be a solution to an existing problem (Vlaskovits 2011).

The role of innovations, not only in customer experience management but altogether in business is unquestionably significant. Researches prove that innovation is the strong explanatory factor that explains performance and prosperity differences between organizations. Around the world companies that have achieved lead in their industry exercise strategies that differ from each other in many aspects (Porter 1990). Still, even though companies have their own particular strategies, the character and trajectory behind the successful companies are fundamentally the same. Competitive advantage is gain through innovations and great customer experience (Kraft 2012; Prahalad and Ramaswamy 2004; Porter 1990; Shaw and Ivens 2005).

5.2 Limitations and future research

Undeniably, we already have altogether a comprehensive understanding of the role played by innovations, since they are proven to be crucial for long-run economic growth (Fagerberg 2004). Still, even though there are a great amount of literature and research from the past sixty years concerning innovations, literature still know and study more what innovations lead to, instead of why or how they occur. Innovation as a phenomenon is too complex to be analyzed properly from a single point of view. Problem with this is that innovation has been studied by researchers with different backgrounds who focus on specific area or industry where innovations occur. This is naturally reflected to the multiple definitions about the perceptions of “innovation” in the literature. In the future, it would be more integrative if researchers from different backgrounds would come together in a constructive dialogue to create more coherent and up-to-date literature.

Even though vital and anticipated mindset change about customer experience management’s significance has already been happening, the “customer experience phenomenon” as we

know it is still quite novel. Further work is still needed to test the findings in more organizations supported by not only qualitative but also quantitative research. Quantitative numeral data, for instance comparing companies' revenues and customer satisfaction to customer experience maturity levels would add value to the studies already contacted since most of the research is still qualitative. The whole concept of customer experience is indeed holistic, hence quantitative data would add content to its understandability, pragmaticalness and credibility.

There is still a large research gap regarding customer experience innovation literature written in the 2010s that would recognize the significance of the digital era we are currently living in. The concept and examples of customer experience innovation have changes drastically in the past ten years and the literature hasn't followed as fast. There are many related topics (in addition to innovation) that could be researched more in the customer experience management field, but the need for experience digitalization literature and research surfaced most strongly.

Digitalization and its importance for today's consumers is widely recognized but it isn't fully covered in any paper from the customer experience perspective. According to Puhlmann (2013) 80% of the consumer's interactions with brands include online touchpoints along with offline touchpoints. Today the percentage is estimated to be even greater. Simultaneously mobile interactions have taken steadily increasing share. Digitalization and digital experience innovations, which were slightly reviewed in this paper, are the most growing aspects of customer experience (Borowski 2015) and frankly, the most deserving of immediate attention.

6. References

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